

Northeast Arkansas Educational Cooperative

Regulatory Basis Financial Statements and Other Reports

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
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Arkansas

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Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
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Rep. Mary Bentley
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Northeast Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Northeast Arkansas Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the Cooperative on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2016, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2017 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 16, 2017
EDSC00416

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Northeast Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Northeast Arkansas Educational Cooperative (the "Cooperative"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated February 16, 2017. We issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

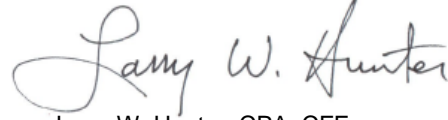
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 16, 2017

Arkansas

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Northeast Arkansas Educational Cooperative and Cooperative Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Northeast Arkansas Educational Cooperative (the "Cooperative") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2016. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

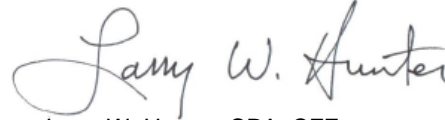
Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 16, 2017

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

Exhibit A

	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
ASSETS			
Cash	\$ 1,549,860	\$ 46,688	\$ 722,865
Investments	1,265,184		
Accounts receivable	86,135	182,816	
 TOTAL ASSETS	 \$ 2,901,179	 \$ 229,504	 \$ 722,865
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,102	\$ 3,929	
 Fund Balances:			
Restricted	969,025	225,575	
Committed			\$ 722,865
Assigned	902,563		
Unassigned	1,028,489		
Total Fund Balances	2,900,077	225,575	722,865
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 2,901,179	 \$ 229,504	 \$ 722,865

The accompanying notes are an integral part of these financial statements.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
State assistance	\$ 2,482,816		
Federal assistance		\$ 1,684,932	
Investment income	13,923		
Other revenues	786,372		
TOTAL REVENUES	3,283,111	1,684,932	
EXPENDITURES			
Regular programs	518,408	958,221	
Special education	177,300	358,916	
Career education programs	771	164,047	
Student support services	314,664	201,717	
Instructional staff support services	1,198,021	212,616	
General administration support services	141,051		
Central services support services	152,503		
Operation and maintenance of plant services	122,659	3,000	
Other support services	1,450		
Non-programmed costs		14,109	
TOTAL EXPENDITURES	2,626,827	1,912,626	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	656,284	(227,694)	
OTHER FINANCING SOURCES (USES)			
Transfers in			\$ 350,000
Transfers out	(350,000)		
TOTAL OTHER FINANCING SOURCES (USES)	(350,000)		350,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	306,284	(227,694)	350,000
FUND BALANCES - JULY 1	2,593,793	453,269	372,865
FUND BALANCES - JUNE 30	\$ 2,900,077	\$ 225,575	\$ 722,865

The accompanying notes are an integral part of these financial statements.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 3,038,749	\$ 2,482,816	\$ (555,933)			
Federal assistance				\$ 667,478	\$ 1,684,932	\$ 1,017,454
Investment income	25,000	13,923	(11,077)			
Other revenues	1,152,353	786,372	(365,981)			
TOTAL REVENUES	4,216,102	3,283,111	(932,991)	667,478	1,684,932	1,017,454
EXPENDITURES						
Regular programs	1,509,294	518,408	990,886	3,000	958,221	(955,221)
Special education	295,193	177,300	117,893	443,889	358,916	84,973
Career education programs		771	(771)	155,425	164,047	(8,622)
Student support services	402,109	314,664	87,445	281,476	201,717	79,759
Instructional staff support services	1,204,219	1,198,021	6,198	182,838	212,616	(29,778)
General administration support services	131,650	141,051	(9,401)			
Central services support services	156,800	152,503	4,297			
Operation and maintenance of plant services	129,036	122,659	6,377	3,000	3,000	
Other support services		1,450	(1,450)			
Non-programmed costs				17,567	14,109	3,458
TOTAL EXPENDITURES	3,828,301	2,626,827	1,201,474	1,087,195	1,912,626	(825,431)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	387,801	656,284	268,483	(419,717)	(227,694)	192,023
OTHER FINANCING SOURCES (USES)						
Transfers in	17,567		(17,567)			
Transfers out		(350,000)	(350,000)			
TOTAL OTHER FINANCING SOURCES (USES)	17,567	(350,000)	(367,567)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	405,368	306,284	(99,084)	(419,717)	(227,694)	192,023
FUND BALANCES - JULY 1	2,581,145	2,593,793	12,648	452,992	453,269	277
FUND BALANCES - JUNE 30	\$ 2,986,513	\$ 2,900,077	\$ (86,436)	\$ 33,275	\$ 225,575	\$ 192,300

The accompanying notes are an integral part of these financial statements.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a 14 member group, is the level of government, which has responsibilities over all activities within the jurisdiction of the Northeast Arkansas Educational Cooperative (Cooperative). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects. If applicable, the Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The Cooperative maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	10-20
Buildings	25-50
Equipment	5-20

F. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Cooperative's Board of Education.
3. Assigned fund balance – represents amounts that are constrained by the Cooperative's *intent* to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

G. Budget and Budgetary Accounting

The Cooperative is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Cooperative does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the cooperatives employ the cash basis method.

The Cooperative routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Stabilization Arrangements

The Cooperative's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

I. Minimum Fund Balance Policies

The Cooperative's Board of Education has not formally adopted a minimum fund balance policy.

J. Fund Balance Classification Policies and Procedures

The Cooperative's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the Cooperative's Board of Education through a resolution or adoption of board policy.

The Director, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Cooperative's Board of Education has not adopted a formal policy addressing this authorization.

The Cooperative's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Cooperative's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Cooperative does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Cooperative personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Cooperative does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

K. Encumbrances

The Cooperative does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the Cooperative's agent, pledging bank or pledging bank's trust department or agent in the Cooperative's name	3,334,597	3,708,587
Total Deposits	<u>\$ 3,584,597</u>	<u>\$ 3,958,587</u>

The above total deposits include certificates of deposit of \$1,265,184 reported as investments and classified as nonparticipating contracts.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 46,181	
Federal assistance		\$ 182,816
Other	39,954	
Totals	<u>\$ 86,135</u>	<u>\$ 182,816</u>

4: ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	<u>\$ 1,102</u>	<u>\$ 3,929</u>

5: INTERFUND TRANSFERS

The Cooperative transferred \$350,000 from the general fund to the other aggregate funds to supplement future capital projects.

6: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

The Cooperative contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The employer contribution was paid by the Arkansas Department of Education from the Public School Fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the Cooperative. The Arkansas Department of Education's contributions to ATRS for the Cooperative during the year ended June 30, 2016 were \$365,683, equal to the required contributions. The Cooperative's contributions to ATRS for the year ended June 30, 2016 were \$47,432, equal to the required contributions.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6: RETIREMENT PLAN (Continued)

Arkansas Teacher Retirement System (Continued)

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Cooperative's proportionate share of the collective net pension liability. The Cooperative's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$3,239,276.

7: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Cooperative carries commercial insurance for board liability and business trip accidental death and dismemberment coverage.

The Cooperative participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member entities. The Cooperative contributes annually to this program.

The Cooperative participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The Cooperative participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member entities, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Cooperative pays an annual premium for its coverage of buildings, contents, and vehicles.

8: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the Cooperative's employees, totaled \$80,599 for the year ended June 30, 2016.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

9: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		
	Major		Other
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Smart Start literacy programs	\$ 525,298		
Science module	220,774		
Math and science programs		\$ 50,782	
Medical services		149,616	
Special education programs	113,781	14,997	
Other purposes	109,172	10,180	
Total Restricted	<u>969,025</u>	<u>225,575</u>	
Committed to:			
Capital projects			<u>\$ 722,865</u>
Assigned to:			
Preschool programs	191,796		
Professional development	617,959		
Other purposes	92,808		
Total Assigned	<u>902,563</u>		
Unassigned	<u>1,028,489</u>		
Totals	<u>\$2,900,077</u>	<u>\$ 225,575</u>	<u>\$ 722,865</u>

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 1

	Balance June 30, 2016
<i>Nondepreciable capital assets:</i>	
Land	\$ 20,000
<i>Depreciable capital assets:</i>	
Buildings	754,545
Improvements/infrastructure	362,766
Equipment	805,696
Total depreciable capital assets	<u>1,923,007</u>
Less accumulated depreciation for:	
Buildings	175,809
Improvements/infrastructure	89,591
Equipment	673,401
Total accumulated depreciation	<u>938,801</u>
Total depreciable capital assets, net	<u>984,206</u>
Capital assets, net	<u><u>\$ 1,004,206</u></u>

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	3820		\$ 96,737
Special Education - Preschool Grants	84.173	3820		439,348
				<hr/>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				536,085
				<hr/>
OTHER PROGRAMS				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	3820		169,826
				<hr/>
Passed Through Arkansas Department of Education:				
Mathematics and Science Partnerships	84.366	3820		216,781
Total U. S. Department of Education				386,607
				<hr/>
<u>U. S. Department of Health and Human Services</u>				
Passed Through Arkansas Department of Education:				
Temporary Assistance for Needy Families	93.558	0000200753		950,000
				<hr/>
TOTAL OTHER PROGRAMS				1,336,607
				<hr/>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	\$ 1,872,692
				<hr/> <hr/>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Northeast Arkansas Educational Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: The Cooperative has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2016, the Cooperative received Medicaid funding of \$19,121 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
Regulatory basis opinion units - unmodified

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	none reported

Noncompliance material to financial statements noted?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	no
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FEDERAL AWARDS

Internal control over major federal programs:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	none reported

Type of auditor's report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="text"/>	yes	<input checked="" type="text" value="X"/>	no
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Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Ed Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?	<input checked="" type="text" value="X"/>	yes	<input type="text"/>	no
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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

FINANCIAL STATEMENT FINDINGS

There were no findings in the prior audit.

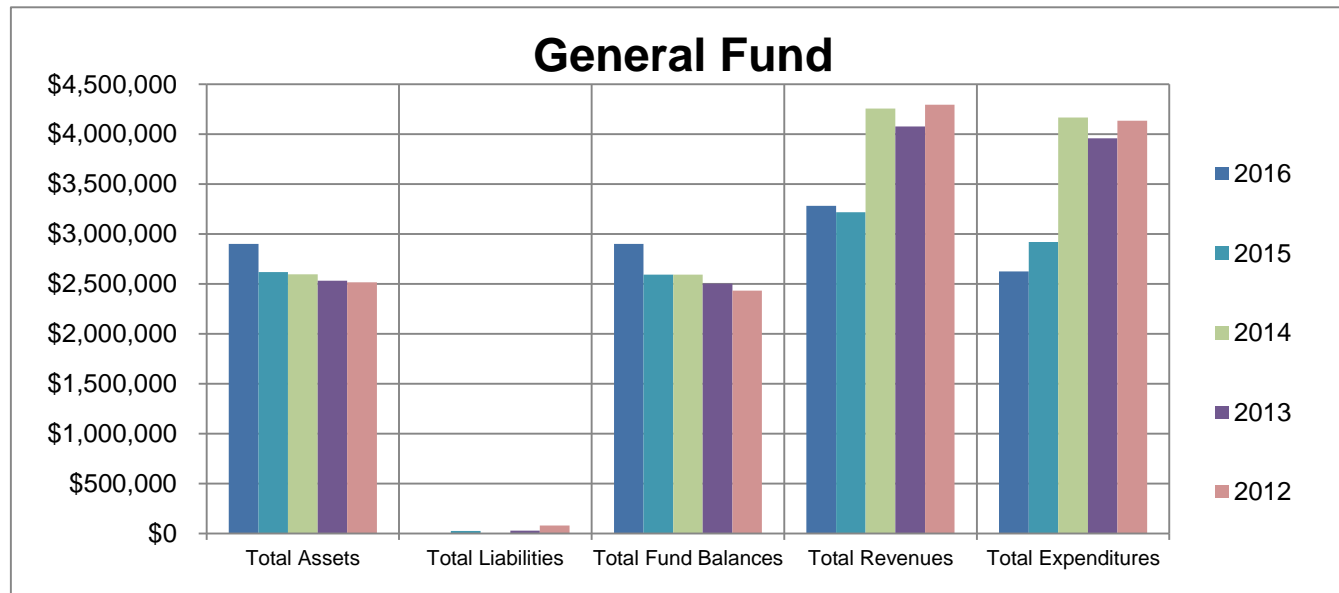
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the prior audit.

NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 5

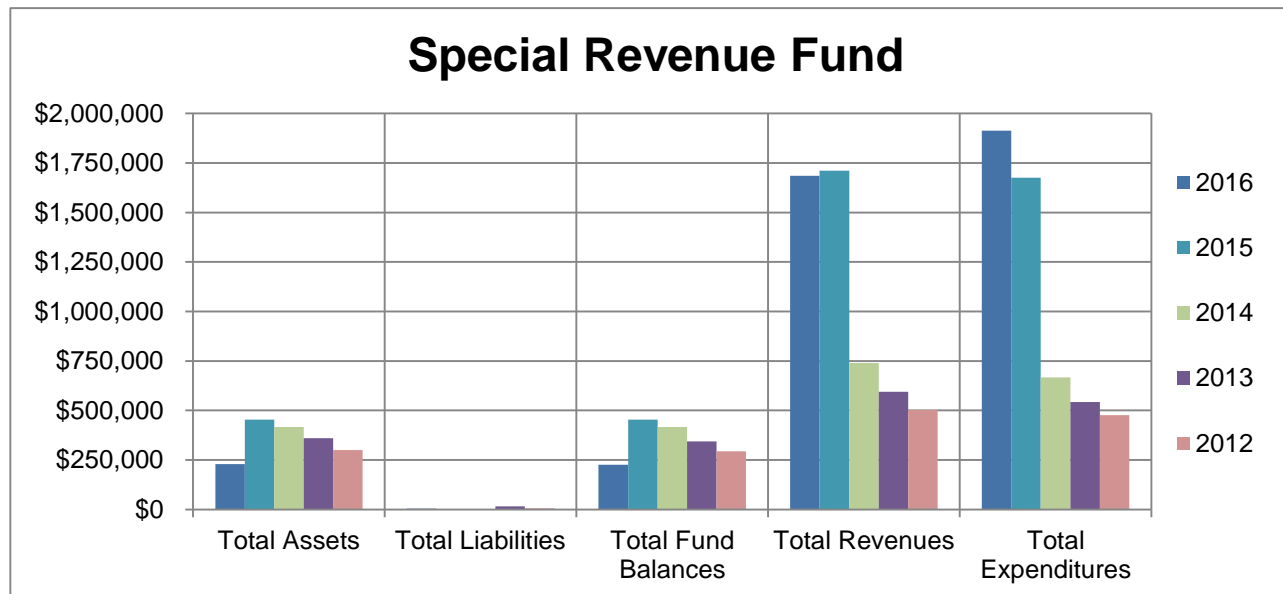
General Fund	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 2,901,179	\$ 2,618,708	\$ 2,594,875	\$ 2,532,970	\$ 2,515,391
Total Liabilities	1,102	24,915	932	28,815	81,422
Total Fund Balances	2,900,077	2,593,793	2,593,943	2,504,155	2,433,969
Total Revenues	3,283,111	3,219,755	4,256,951	4,077,352	4,295,267
Total Expenditures	2,626,827	2,919,905	4,167,163	3,957,166	4,135,733
Total Other Financing Sources (Uses)	(350,000)	(300,000)		(50,000)	



NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 5

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 229,504	\$ 453,385	\$ 417,291	\$ 360,322	\$ 299,820
Total Liabilities	3,929	116		15,643	5,600
Total Fund Balances	225,575	453,269	417,291	344,679	294,220
Total Revenues	1,684,932	1,711,405	740,024	593,781	502,797
Total Expenditures	1,912,626	1,675,427	667,412	543,322	476,001
Total Other Financing Sources (Uses)					



NORTHEAST ARKANSAS EDUCATIONAL COOPERATIVE
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 5

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 722,865	\$ 372,865	\$ 72,865	\$ 72,865	\$ 69,595
Total Liabilities					
Total Fund Balances	722,865	372,865	72,865	72,865	69,595
Total Revenues					54,209
Total Expenditures				46,730	384,614
Total Other Financing Sources (Uses)	350,000	300,000		50,000	

